



BERLIN

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

| | OFFICE | RETAIL | INDUSTRIAL |
|---------------------------------|--------|--------|------------|
| Rental Growth | ↑↑ | → | ↑↑ |
| Vacant Space | ↓↓ | → | ↓ |
| Construction Levels | → | → | → |
| Leasing Volume | → | → | → |
| Investment Volume (all sectors) | | → | |

Berlin suffers from a lack of office space and the housing market is also narrowing. Construction activity is at the highest level, bringing new apartments and offices to the city, but will hardly keep up with demand.

However, compared to the other major cities in Germany, the development potential in Berlin has not yet been exhausted, and there are still conversion areas or opportunities for densification. Now that the Europacity has been largely built on, the area of Tegel Airport will offer large-scale development potential from 2021, once the international airport BER is open.

Companies such as Lufthansa with the Lufthansa Innovation Hub and Mercedes with MBiton, have set up their innovation hubs in Berlin.

EXECUTIVE SUMMARY

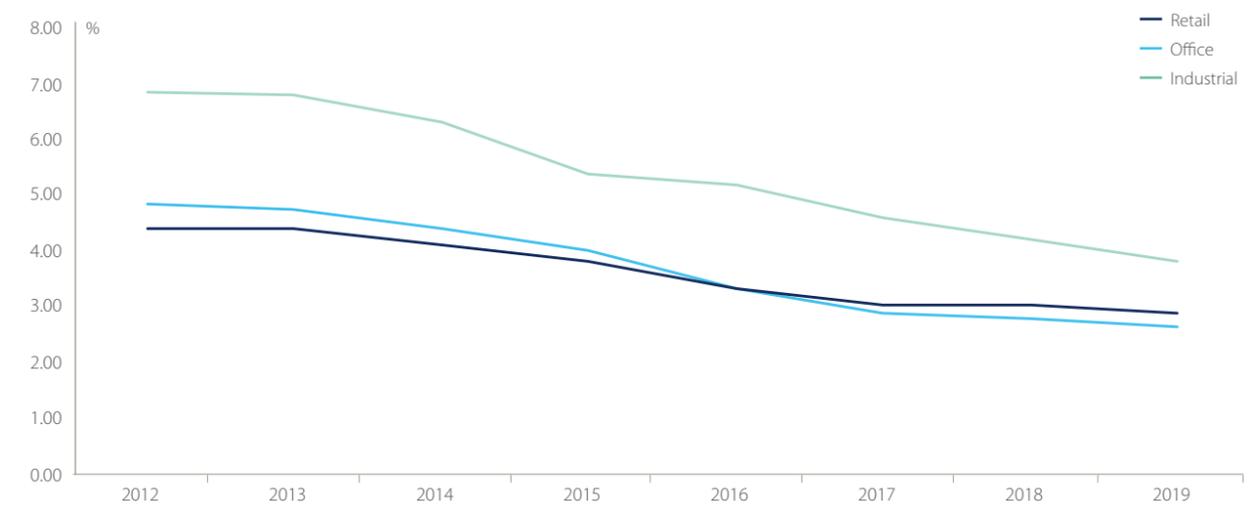
- Berlin is currently Germany's stellar performer with leasing and investment markets performing at record highs.
- Letting volumes are at top level despite a vacancy rate tending towards 1%.
- Project developments are quickly absorbed by the market, with no relaxation in sight.
- Berlin lifts off - investment volumes reached a new record of some €12bn for 2019.
- The city has turned into a top destination for a young, urban international workforce, corporates and investors.

Germany's capital, political and creative centre Berlin has experienced rapid economic and population growth in recent years. This trend will not be halted in 2020 either. The resulting competition for space, which is determining the cityscape, will noticeably increase. As a result, the creation of attractive, diverse and flexible spaces, also in the outskirts of the city, is a main priority for 2020.

For a long time, Berlin was granted little as the capital, except creativity. This picture has since changed significantly: the civil servant and student city of the 90s, still suffering at the time from 41 years of division, has now become a diverse and active economic metropolis, with radiance to the surrounding area. The city has developed a pioneering position, particularly in the area of new media and e-commerce, and attracts modern working nomads from all over the world.

Start-ups and established companies have taken advantage of this and set up their innovation hubs in Berlin. For traditional companies from the province, it is becoming increasingly difficult to recruit employees for their headquarters. Instead, the companies move to the employees with the intention to take technologies to the next level. Additionally, large city-based companies are also bustling in Berlin.

BERLIN YIELDS



Source: Avison Young

SOME OF THE KEY TOPICS TO LOOK OUT FOR IN 2020

Mediaspree:

- Mediaspree is a former industrial and commercial area that has been developing on both sides of the Spree since the 1990s with a focus on media companies. Nowadays, located between the city districts Friedrichshain and Kreuzberg it is one of the most bustling office submarkets. While Zalando is already located in Mediaspree with some 42,000 sq.m, Amazon has recently also signed a major leasing contract.

Sustainability and infrastructure:

- In Berlin, public transport is a high priority. The “Hoch- und Unterbahn” was opened in 1902, and at that time it was a forward-looking mammoth project for the metropolis. Nowadays, besides enhancing the public transport system, there is an additional focus on bike cycle paths, via a cycle expressway network of at least 100km, which should give cyclists priority and will be structurally implemented in the next few years. This is already enshrined in the Berlin Mobility Act, and supports Berlin’s city concept for 2030 regarding accessibility and compatible city mobility. But small parts are also being retrofitted. Examples where these measures are implemented include the Oberbaum Bridge, which connects Kreuzberg with Friedrichshain and leads through Mediaspree, where cyclist will get larger parts of the bridge for a safer ride.

Airport BER:

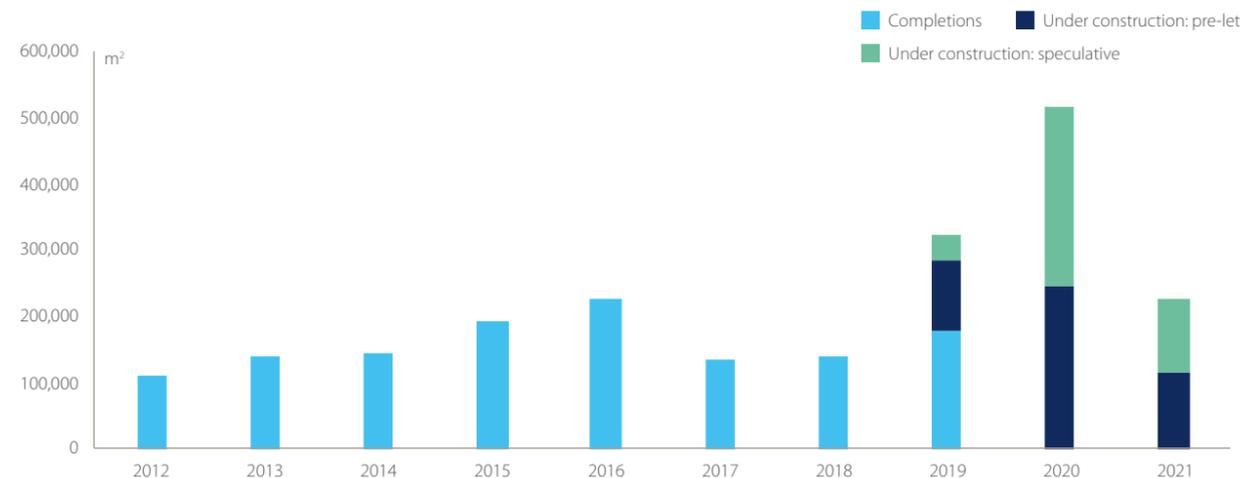
- Finally Berlin Airport BER will open in October 2020. Terminal 2 might also be completed at this time, which is set to accommodate the increased capacities since the original planned opening date of Nov 2011. Surrounding commercial areas are already receiving uplifts from this. The old Tegel Airport (TXL) which is in proximity to the CBD will close once BER has opened and major parts will be converted into residential areas, along with a research and industrial park for urban technologies: Berlin TXL - The Urban Tech Republic.

Rental Cap (“Mietpreisdeckel”):

- It looks as if the whole of Berlin and beyond are currently discussing developments on the housing market. Berlin’s left-wing government’s plans are particularly controversial, not just to brake rents but to cap them. A legal bill is being drafted for this and it is still unclear whether it will ever be finalised. If so, there is also the threat of an expansion to the commercial sector or other German cities could follow suit. For investors, uncertainty in particular is an obstacle to planning. However, new buildings would not be affected by the new bill.

The German capital has always been considered as creative; in recent years it has taken advantage of the opportunities offered by its new/old role, and has also become broader in economic terms.

BERLIN COMPLETIONS Q3 2019



THE OFFICE LEASING MARKET

The Berlin office market is moving at record levels in many ways and letting volumes have exceeded 800,000 sq.m for the first time since 2015. In 2017 they reached the 900,000 sq.m mark, with 2019 also settling around this mark. This is all the more remarkable since the vacancy rate feels close to zero and was calculated at 1.3% at the end of September 2019. The current office rental market is therefore forcing users, in particular those looking for larger spaces, to extend existing contracts.

The only chance for change is signing pre-letting contracts. This is where the large companies prefer to come in. Amazon has secured around 55,000 sq.m on the Edge Eastside for 2024. However, the project with an investment volume of around €400 million which is to be created in the Mediaspree sub-market.

For mid-2020 the completion of the UP! business ensemble is scheduled. The existing building at Ostbahnhof in the Mediaspree quarter will be converted into an office building with 42,500 sq.m gross floor area, with potential to be extended by two floors. The gastronomic area on the ground floor will be retained and the anchor tenant of the office space will be Zalando.

Not only in Mediaspree is building activity high. The largest construction project to be completed in the office sector is currently in its final stages.

The new Axel-Springer Media Campus will provide 52,000 sq.m of office space for 3,500 employees in the heart of Berlin. Springer is the sole tenant of the modern building, in which around €300 million has been invested.

Actually, new construction activity is at a record level. There is currently over 1 million sq.m under construction, and in 2020 alone over 500,000 sq.m is expected to be completed.

The large-scale conversion of former industrial buildings or new developments on brownfield sites highlights the urgent need for office space in Berlin. This urban development phenomenon can be observed e.g. in the Mediaspree submarket where currently the Cuvry-Campus is being realised with some 34,000 sq.m, but also in many other parts of the city. Due to the high demand and the record-low vacancy rate, square metre prices are rising throughout the city. Here, too, the Mediaspree quarter stands out, which has seen rents increase by almost 100% in individual cases over the past 3 years. In submarkets such as Mitte or Mediaspree, there are hardly any signings below €30/sq.m/month.

The development of rental prices is exceptional. The top rent for high-quality office space has increased by 57% since 2014. In addition to the general upward trend, Berlin’s office rents have a backlog, which also applies to the housing market. For a long time, the real estate market of the German capital was performing well below the other major European cities, and now a realignment is taking place.

COMMERCIAL INVESTMENT MARKET

Berlin broke through the €10 billion threshold in 2019 with ease and set a new record, with total investment volumes reaching some €12bn. The run of investors on assets is unbroken and investment volumes only are being limited by product shortage. The trend towards forward deals remains, as the user markets are absorbing new space directly, unless they are being withheld from the market to generate more rent. New product usually finds a buyer before completion.

However, it should also be noted that the periods from receiving a building permit, until the handing over of keys, are increasingly being delayed. Approval procedures are taking longer, as authorities are overwhelmed or pursuing conflicting interests and construction companies are extremely busy, so projects may not be realised as quickly.

In 2020 it will be exciting to see what role the rent-price brake will play and whether it will even get through constitutionally. The first investors are already preparing for further regulation of apartment rents, yet still prefer to buy in Berlin. Others have shifted their focus towards other federal territory or are investing in commercial real estate.

Product will continue to be scarce and investors will continue to ride the risk curve. Selectively, yields will have the chance to decline further, especially in the office and logistics sectors. Today Berlin is Germany’s lead city regarding prime yields. Office prime yields have fallen in the last 10 years by 255 basis points to below 2.65%.